Crowdfunding and Payment Service Provider Registration and Reporting

Key Messages:

- Under the terms of the PCMLTFA, financial institutions and other covered entities are subject to due diligence and disclosure requirements aimed at identifying individuals involved in illicit finance activities.
- Recent activities have highlighted the fact that certain financial service providers, including crowdfunding platforms (e.g., GoFundMe) and the payment service providers they use (Stripe, Square, Paypal, Visa and Mastercard) are not **fully** subject to the obligations under the PCMLTFA.
- The measures contained in the Order will ensure that **these entities are immediately obligated to:**
    - **Register with FINTRAC; and**
    - **Report suspicious transactions to FINTRAC.**
- These new requirements will increase the quality/quantity of intelligence received by FINTRAC and the ability of law enforcement agencies to identify and take action against those involved in illicit finance activities.
- These new requirements will ensure that these entities are subject to FINTRAC's disclosure requirement including the report of all suspicious transactions as well as all transactions totaling $10,000 or more.

Q: What would these changes mean in practice?

A: Extending anti-money laundering and anti-terrorist financing requirements to crowdfunding platforms and the payment service providers they use will not modify the powers of the Minister of Finance or Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). It will ensure that these entities:

- Register with FINTRAC;
- Report any suspicious transaction to FINTRAC.

This will help mitigate risks that these platforms receive illicit funds, increase the quality/quantity of intelligence received by FINTRAC, and make more information available to support investigations by law enforcement.

Q: What are the limitations of these changes?

A: FINTRAC does not have the authority to track or monitor financial transactions in real time, nor does it freeze assets or investigate potential criminal activities. The RCMP and other policing bodies would remain responsible for investigating crime.

While foreign crowdfunding platforms and the payment service providers they use would be captured, enforcement of regulatory requirements could be more limited. For example, there would be no ability for FINTRAC to directly examine entities located outside of Canada as the Government of Canada does not have the jurisdiction to do so, and the ability to enforce administrative monetary penalties will be restricted. However, similar to existing requirements for foreign money services businesses, there is a requirement for registration with FINTRAC and

to have an officer/office in Canada. This means that FINTRAC will have access to someone located in Canada for the purposes of enforcing regulatory requirements.

The obligations would not be applied retroactively.

Q: How quickly will these new requirements come online?

A: Under the terms of the Order, all persons and entities, whether they have place of business in Canada or outside Canada, that are engaged in the business of providing a platform to raise funds or virtual currency through donations, or providing a payment function for these purposes will **immediately** have to register with FINTRAC and **immediately** begin disclosing suspicious transactions to FINTRAC.

Q: Would these changes cover the use of cryptocurrencies?

A: Yes it would. Anti-money laundering and anti-terrorist financing requirements under the PMLTFA already apply to virtual (crypto) assets, including customer due diligence, recordkeeping, and reporting large value and suspicious transactions.

Annex – Background Information

CROWDFUNDING

- **Crowdfunding** is the practice of funding a project or venture by raising financial contributions from a number of people, typically through online platforms, in order to carry out a project, investment or other endeavor requiring funds. Crowdfunding campaigns are often completed in conjunction with a dedicated crowdfunding platform or by initiating informal appeals through social media. A crowdfunding platform, also called a funding portal, posts crowdfunding projects on its website. Estimates of the sector vary. Globally, the crowdfunding industry is estimated to be worth US$10.2 billion in 2018 and is expected to reach US$28.8 billion by the end of 2025.

- Unlike traditional fundraising methods (e.g. loans from financial institutions), crowdfunding allows individuals or groups to appeal for funds directly from members of the public. Crowdfunding platforms enable those connected online or through social media, who may be geographically dispersed, to pool resources towards common goals and projects that require financing.

PAYMENT SERVICE PROVIDERS

- **Payment service providers (PSPs)** include a variety of entities that perform electronic payment functions, such as payment processors, digital wallets, currency transfer services, and other payment technology companies that offer any of the following services:
    - providing and maintaining a payment account;
    - holding funds until the end user withdraws or transfers them;
    - initiating an electronic funds transfer as requested by an end user;
    - authorizing or transmitting instructions about an electronic funds transfer; and
    - clearing or settling electronic funds transfers

CROWDFUNDING AND PSPs

- Many of the crowdfunding platforms that currently exist use third party **PSPs** to enable the completion of payments. This means that the information related to the transaction as well as the movement of money itself, is fragmented along a number of different entities, but would most likely be held with the PSP, rather than the crowdfunding platform lending its services to an individual or entity engaged in fundraising.

CROWDFUNDING AND FINTRAC DATA

- Under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, FINTRAC does not have the authority to track or monitor financial transactions in real time.

- The Centre receives approximately 30 million financial transaction reports a year from businesses subject to the Act, including reports on international electronic funds transfers

(EFTs) totaling $10,000 or more within a 24 hour period; large virtual currency transactions totaling $10,000 or more within a 24 hour period; and suspicious transactions, which have no monetary threshold for reporting.